

April 26, 2022

Event Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,208		1,096	
Sales (Rs. m)	58,899	68,648	52,235	61,233
% Chng.	12.8	12.1		
EBITDA (Rs. m)	10,064	11,985	9,246	10,838
% Chng.	8.9	10.6		
EPS (Rs.)	57.1	67.2	54.1	61.0
% Chng.	5.6	10.2		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	41,325	45,344	58,899	68,648
EBITDA (Rs. m)	6,060	8,219	10,064	11,985
Margin (%)	14.7	18.1	17.1	17.5
PAT (Rs. m)	3,743	5,250	6,408	7,541
EPS (Rs.)	33.4	46.8	57.1	67.2
Gr. (%)	1.0	40.3	22.1	17.7
DPS (Rs.)	11.9	16.6	20.3	28.7
Yield (%)	1.3	1.9	2.3	3.2
RoE (%)	13.6	17.3	19.4	20.4
RoCE (%)	12.9	17.6	19.9	21.6
EV/Sales (x)	2.1	2.0	1.6	1.1
EV/EBITDA (x)	14.0	11.1	9.1	6.4
PE (x)	26.9	19.2	15.7	13.4
P/BV (x)	3.3	3.2	2.8	2.1

Key Data

CYIE.BO | CYL IN

52-W High / Low	Rs.1,292 / Rs.688
Sensex / Nifty	56,580 / 16,954
Market Cap	Rs.99bn/ \$ 1,293m
Shares Outstanding	110m
3M Avg. Daily Value	Rs.312.13m

Shareholding Pattern (%)

Promoter's	-
Foreign	-
Domestic Institution	-
Public & Others	-
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.7)	(16.9)	31.0
Relative	(0.3)	(10.5)	10.8

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Cyient (CYL IN)

Rating: BUY | CMP: Rs899 | TP: Rs1,208

Diversifies industrial and market presence

Quick Pointers:

- Acquisition to diversify Cyient's revenue in plant engineering, thereby reducing cyclicity of overall portfolio.
- Acquisition to have one-time impact of 30-50bps on EBIT margin in FY23, to be EBIT margin accretive from FY24 and EPS accretive from FY23.

Cyient's acquisition of Citec for Euro 94 mn (~\$101 mn) at a valuation of 1.2x EV/Sales can help accelerate long term growth prospects. It can 1) add scale (14% of Cyient's FY22 revenue), 2) diversify Cyient's presence in plant engineering (currently only ~2% of Cyient's revenue, will increase to ~11% of combined entities revenue), 3) expand footprint in Nordic region, 4) provide complimentary set of clients with cross-selling opportunities and 5) establish delivery presence in Mumbai and Pune with increased scope for offshoring. Though medium term growth opportunities for Citec remain strong we need to closely monitor how integration and cross-selling pan out for Cyient, since it is one of the largest acquisitions in ER&D space in India.

We increase our EPS estimates by 5.6%/10.2% led by increase in revenue estimates by 13%/12% and partially offset by cut in margin estimates by ~60bps/20bps for FY23/24. We continue to value Cyient on earnings multiple of 18x FY24 EPS of Rs.67 to arrive at TP of 1208 (earlier Rs. 1096). Cyient is currently trading at attractive valuations of 15.8x/13.4x on FY23/24 earnings of INR 57/67 respectively at significant discount to ER&D sector trading at ~40x FY24 EPS. We anticipate 21% revenue CAGR & 20% EPS CAGR for FY22-24E. Maintain BUY.

- One of the largest acquisitions in ER&D space by Indian company:** Cyient is acquiring Citec, one of the leading Plant and Product engineering services company in Nordic region serving customers energy (gas and renewables) and mining industries for EUR 94 mn (~USD 101 mn). Its revenue of EUR 80 mn (~\$86.3 mn) is 14% of Cyient's FY22 revenue.
- Diversifying in to Plant Engineering:** Cyient is heavily concentrated towards aerospace, rail transportation and communication. This acquisition will diversify its presence in Energy, Industrial and Plant Engineering (EIP) which currently accounts only ~2% of Cyient's revenue and thus reduces cyclicity at overall portfolio level. Plus, Cyient can extend its existing digital solutions to process and plant industries.
- Healthy growth in Citec's TAM:** TAM for Citec based on its current engineering capabilities in natural gas power plants is \$2.5bn expected to grow at 6% CAGR over long term. TAM for outsourced digital plant engineering spend in industrial sector (energy) is \$14bn, growing at 15-20% CAGR. Another growth lever is gas based backup power plants for renewables which are expected to grow at 8.56% CAGR.

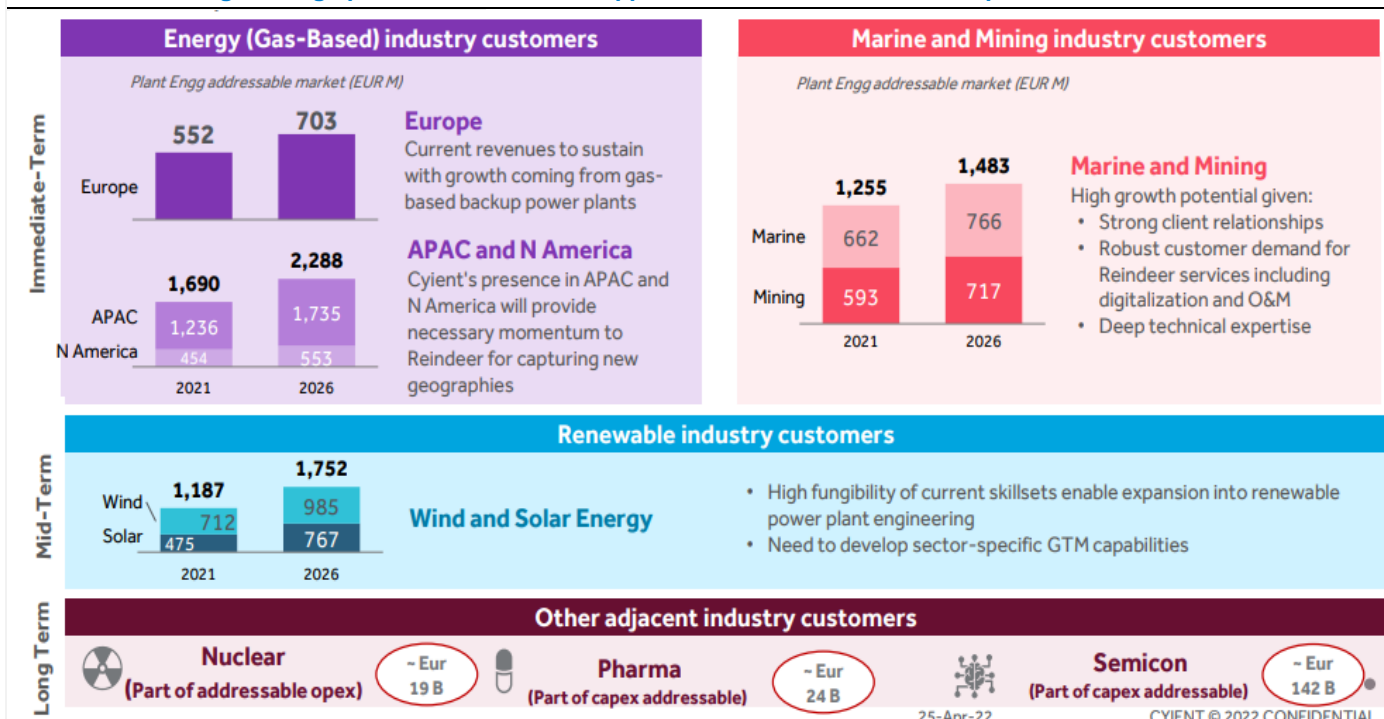
- **Expansion in Nordic region:** Cyient has relatively lower exposure to EMEA region (~25%) and very low presence in Nordics currently. Citec's strong brand value and talent pool in Nordic region will enable Cyient to expand its footprint in Nordics (Finland, Norway, Sweden), Germany and France.
- **Complimentary set of customers:** Citec will provide Cyient access to multiple European based global companies in energy, process, and mining industries along with a bridgehead for expansion into other process industries (e.g. pharma). Citec derives 70% of revenue from Top 5 customers with only one of them being existing client of Cyient. This provides significant cross-selling opportunities to Cyient.
- **Citec valued at attractive valuations of 1.2x EV/Sales:** Enterprise value of Citec is EUR 94 mn (~ USD101.36 mn). This translates to 1.2x of 2021 Revenue and 6.3x of 2021 EBITDA (reported). Debt (~ 27 mn Euro) on books of Citec will be retired prior to completion of acquisition and is included in total cost of Euro 94 mn. Cyient is buying the target company from PE firm Sentieo Oyj who is the parent entity of Citec.
- Citec's revenue of EUR 80 mn (~\$86.3 mn) is 14% of Cyient's total FY22 revenue and 17% of Services business FY22 revenue. Citec generated revenues of EUR 80m (2021), 73m (2020) and 78m (2019) in the last 3 years, tepid growth of ~1% CAGR due to impact of COVID.
- **Acquisition is EBIT margin and EPS accretive:** Acquisition is accretive on EPS (from Y1 onwards) and EBIT margin (except for Y1). One-time integration costs will impact EBIT margins by 30-50bps in FY23. EBIT margin of Citec is expected to be between 14-16%, therefore acquisition is margin accretive from Year 2. ETR of combined entity is expected to be lower by 50bps as Citec (European region) has lower tax rates than India.
- Citec has 1200 employees spread globally with 50%+ staff in India with delivery locations in Pune and Mumbai.
- The acquisition will be partially funded (50%) from internal accruals and debt. Cyient currently has Rs.12.6 bn cash and cash equivalents on balance sheet, long term borrowing of Rs.23 mn and short term borrowings of Rs.3.24 bn.

Exhibit 1: Citec acquisition – impact on financials

Impact on Cyient financials	CY21 reported financials of Citec	FY 23 (11 months consolidation)	FY24 (Full Year)
Revenue	Euro 80 (USD 86m)	USD 83-87 Mn	USD 98-102 Mn
EBIT margins	14.20%	Upto 30-50 bps of headwind at group level due to one-time integration costs in Year 1	EBIT margin accretive from year 2 (acquisition EBIT margin at 14-16%)
PAT	Euro 6.9mn (7.4mn)		
EPS accretion		~4-5% (2.5 – 3 INR)	~8-10% (5-6 INR)
FCF		In-line	
ETR		50bps improvement in ETR	
Funding		In line with policy – 50% Debt	

Source: Company, PL

Exhibit 2: Plant engineering space has tremendous opportunities in other associated process industries too

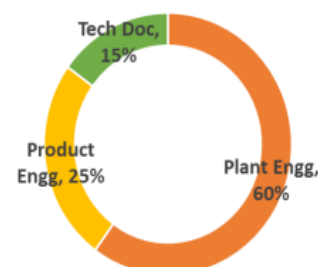


Source: Company, PL

Exhibit 3: Services portfolio of Citec

Services Overview

Plant Engineering	Product Engineering	Tech Doc & Digital Solution
<ul style="list-style-type: none"> • Process engineering • Electrical & IC • Pipeline layout and design • Civil and structural design • Building and HVAC 	<ul style="list-style-type: none"> • Product definition • Concept and styling • Packaging & modularity • Analysis & testing • Production support 	<ul style="list-style-type: none"> • Information solution • Product data maintenance • Content management • 3D modelling • Robotic Process Automation



Source: Company, PL

Exhibit 4: Citec derives ~57% of revenue from Finland

Market	Revenue Share
Finland	57%
Sweden	16%
Germany	8%
France	4%
Norway	7%
Others	9%

Source: Company, PL

Exhibit 5: Cyient's market exposure

Market	Revenue share
America	50%
Europe, Middle East	26%
Asia Pacific	24%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	41,325	45,344	58,899	68,648
YoY gr. (%)	(6.7)	9.7	29.9	16.6
Employee Cost	21,805	22,579	29,078	33,638
Gross Profit	19,520	22,765	29,820	35,011
Margin (%)	47.2	50.2	50.6	51.0
SG&A Expenses	13,460	14,546	19,756	23,026
Other Expenses	-	-	-	-
EBITDA	6,060	8,219	10,064	11,985
YoY gr. (%)	1.7	35.6	22.5	19.1
Margin (%)	14.7	18.1	17.1	17.5
Depreciation and Amortization	1,944	1,923	2,356	2,746
EBIT	4,116	6,296	7,708	9,239
Margin (%)	10.0	13.9	13.1	13.5
Net Interest	472	434	400	400
Other Income	1,166	1,121	1,200	1,200
Profit Before Tax	4,810	6,983	8,508	10,039
Margin (%)	11.6	15.4	14.4	14.6
Total Tax	1,133	1,761	2,212	2,610
Effective tax rate (%)	23.6	25.2	26.0	26.0
Profit after tax	3,677	5,222	6,296	7,429
Minority interest	-	-	-	-
Share Profit from Associate	66	28	112	112
Adjusted PAT	3,743	5,250	6,408	7,541
YoY gr. (%)	1.0	40.3	22.1	17.7
Margin (%)	9.1	11.6	10.9	11.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,743	5,250	6,408	7,541
YoY gr. (%)	1.0	40.3	22.1	17.7
Margin (%)	9.1	11.6	10.9	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,743	5,250	6,408	7,541
Equity Shares O/s (m)	110	110	110	92
EPS (Rs)	33.4	46.8	57.1	67.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	8,655	7,398	7,976	10,976
Tangibles	8,655	7,398	6,307	8,407
Intangibles	-	-	1,669	2,569
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	8,655	7,398	7,976	10,976
Tangibles	8,655	7,398	6,307	8,407
Intangibles	-	-	1,669	2,569
Capital Work In Progress	-	-	-	-
Goodwill	5,830	6,185	6,185	6,185
Non-Current Investments	344	3,582	3,802	4,022
Net Deferred tax assets	319	(97)	(97)	(97)
Other Non-Current Assets	1,262	1,488	1,488	1,488
Current Assets				
Investments	-	866	966	1,066
Inventories	1,586	2,790	2,790	2,790
Trade receivables	8,026	7,333	10,489	12,225
Cash & Bank Balance	18,906	12,666	11,882	11,094
Other Current Assets	-	-	20	40
Total Assets	44,928	47,873	51,163	55,451
Equity				
Equity Share Capital	550	552	552	552
Other Equity	28,991	30,582	34,290	38,653
Total Network	29,541	31,134	34,842	39,205
Non-Current Liabilities				
Long Term borrowings	2,827	2,424	2,424	2,424
Provisions	1,288	1,347	1,447	1,547
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,302	3,241	3,241	3,241
Trade payables	4,532	5,259	4,609	4,302
Other current liabilities	4,256	4,123	4,254	4,385
Total Equity & Liabilities	44,928	47,873	51,163	55,451

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	3,638	5,223	8,620	10,151
Add. Depreciation	1,945	1,922	2,356	2,746
Add. Interest	433	393	400	400
Less Financial Other Income	1,166	1,121	1,200	1,200
Add. Other	(248)	(508)	(1,200)	(1,200)
Op. profit before WC changes	5,768	7,030	10,176	12,097
Net Changes-WC	2,686	(973)	(3,614)	(1,852)
Direct tax	(1,292)	(1,652)	(2,212)	(2,610)
Net cash from Op. activities	7,162	4,405	4,350	7,634
Capital expenditures	(1,571)	(806)	(2,934)	(5,746)
Interest / Dividend Income	397	545	1,200	1,200
Others	167	(3,562)	(300)	(300)
Net Cash from Invt. activities	(1,007)	(3,823)	(2,034)	(4,846)
Issue of share cap. / premium	37	(829)	-	-
Debt changes	(1,466)	(545)	-	-
Dividend paid	(10)	(2,952)	(2,700)	(3,178)
Interest paid	(213)	(166)	(400)	(400)
Others	(874)	(953)	1	1
Net cash from Fin. activities	(2,526)	(5,445)	(3,099)	(3,577)
Net change in cash	3,629	(4,863)	(784)	(788)
Free Cash Flow	5,591	3,599	1,416	1,888

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	10,582	11,116	11,834	11,812
YoY gr. (%)	6.7	10.8	13.3	8.0
Raw Material Expenses	5,548	5,511	5,956	5,934
Gross Profit	5,034	5,605	5,878	5,878
Margin (%)	47.6	50.4	49.7	49.8
EBITDA	1,879	2,075	2,129	2,136
YoY gr. (%)	98.4	30.6	29.0	14.0
Margin (%)	17.8	18.7	18.0	18.1
Depreciation / Depletion	490	517	487	429
EBIT	1,389	1,558	1,642	1,707
Margin (%)	13.1	14.0	13.9	14.5
Net Interest	110	91	116	117
Other Income	257	149	221	494
Profit before Tax	1,536	1,616	1,747	2,084
Margin (%)	14.5	14.5	14.8	17.6
Total Tax	385	403	430	543
Effective tax rate (%)	25.1	24.9	24.6	26.1
Profit after Tax	1,151	1,213	1,317	1,541
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	28
Adjusted PAT	1,151	1,213	1,317	1,569
YoY gr. (%)	41.6	39.9	38.0	51.9
Margin (%)	10.9	10.9	11.1	13.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,151	1,213	1,317	1,569
YoY gr. (%)	41.6	39.9	38.0	51.9
Margin (%)	10.9	10.9	11.1	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,151	1,213	1,317	1,569
Avg. Shares O/s (m)	110	110	110	110
EPS (Rs)	10.5	11.1	12.0	14.3

Source: Company Data, PL Research

Key Financial Metrics

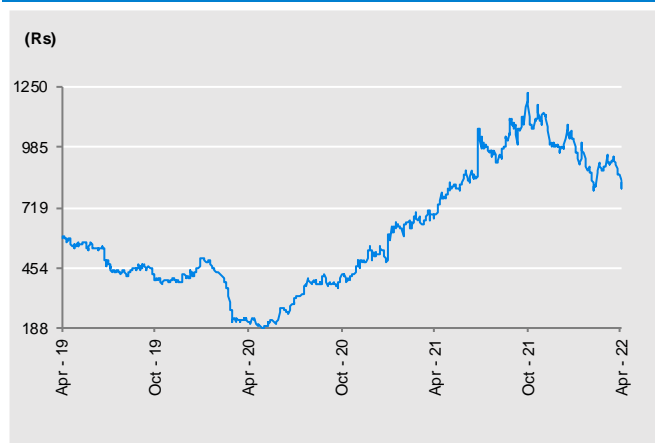
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	33.4	46.8	57.1	67.2
CEPS	51.7	65.0	79.4	111.8
BVPS	268.6	282.0	315.6	426.1
FCF	50.8	32.6	12.8	20.5
DPS	11.9	16.6	20.3	28.7
Return Ratio(%)				
RoCE	12.9	17.6	19.9	21.6
ROIC	20.0	20.2	20.6	20.9
RoE	13.6	17.3	19.4	20.4
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.2)	(0.2)
Debtor (Days)	71	59	65	65
Valuation(x)				
PER	26.9	19.2	15.7	13.4
P/B	3.3	3.2	2.8	2.1
P/CEPS	17.4	13.8	11.3	8.0
EV/EBITDA	14.0	11.1	9.1	6.4
EV/Sales	2.1	2.0	1.6	1.1
Dividend Yield (%)	1.3	1.9	2.3	3.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
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Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-22	BUY	1,258	944
2	21-Jan-22	BUY	1,293	976
3	04-Jan-22	BUY	1,301	1,065
4	17-Oct-21	BUY	1,315	1,160
5	05-Oct-21	BUY	1,145	1,055
6	06-Aug-21	BUY	1,088	967
7	16-Jul-21	BUY	1,088	946
8	02-Jul-21	BUY	912	886

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,535	1,270
2	Coforge	BUY	5,559	4,512
3	Cyient	BUY	1,258	944
4	HCL Technologies	Accumulate	1,169	1,099
5	Infosys	Accumulate	1,899	1,749
6	L&T Technology Services	Accumulate	4,549	4,244
7	Larsen & Toubro Infotech	BUY	6,369	5,472
8	Mindtree	BUY	4,778	3,958
9	Mphasis	BUY	3,755	3,312
10	Persistent Systems	BUY	5,160	4,792
11	Redington (India)	BUY	200	150
12	Sonata Software	BUY	1,065	765
13	Tata Consultancy Services	BUY	4,221	3,696
14	TeamLease Services	Accumulate	4,647	4,034
15	Tech Mahindra	BUY	1,837	1,499
16	Wipro	BUY	735	606
17	Zensar Technologies	BUY	453	384

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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